

Metal Industry Indicators

Indicators of Domestic Primary Metals, Steel, Aluminum, and Copper Activity

October 2003

The primary metals leading index moved up again in September, marking its fifth consecutive monthly increase. Three of the other four metal industry leading indexes advanced in August, the latest month for which they are available. In contrast, the leading index of metal prices moved lower in August.

The **primary metals leading index** advanced 0.6% in September to 133.5 from a revised 132.7 in August. The index's 6-month smoothed growth rate increased to 7.1% from a revised 6.6% in August. The 6-month smoothed growth rate is a compound annual rate that measures the near-term trend. Normally, a growth rate above +1.0% signals an upward trend for future growth in metals activity, while a growth rate below -1.0% indicates a downward trend.

The September index value should be considered preliminary because only four of the index's eight components were available for its computation. The index will be revised when the remaining components are added next month.

A longer average workweek in primary metals establishments was responsible for most of the net increase in the leading index. The JOC-ECRI metals price index growth rate registered a modest increase. The stock price component, which combines the S&P stock price indexes for construction and farm machinery companies and for industrial machinery companies, recorded a very slight increase. In contrast, the Institute for Supply Management's PMI, an index of manufacturing activity, moved lower. However, the PMI remained above the threshold that indicates expansion in the overall U.S. manufacturing sector.

The primary metals leading index has moved up strongly since last April, and its growth rate continues to point to an upturn in U.S. primary metals activity in the coming months.

The **steel leading index** rose 1.3% in August, moving up to 112.7 from a revised 111.2 in July. The index's 6-month smoothed growth rate climbed to 4.5% from a revised 1.9% in July, equaling the index's highest growth rate in the past 23 months. Three components, retail sales of U.S. passenger cars and light trucks, the PMI, and the index of new housing permits, accounted for most of the strength in the leading index. Only two of the leading index's nine components moved lower in August. The growth rate of the steel leading index is signaling an end to the decline in steel industry activity that began in late 2002.

The **aluminum mill products leading index** moved up 1.1% in August to 166.3 from a revised 164.5 in July. The index's 6-month smoothed growth rate rose to 1.6% from a revised -0.5% in July. The July index was revised lower after factoring in another unusually large drop in the average workweek component. Six of the index's seven components were available to compute the August index value, with the average workweek again unavailable. The same components that boosted the steel leading index, motor vehicle sales, the PMI, and housing permits, plus net new orders for aluminum mill products were responsible for the net increase in the aluminum mill products leading index. Except for the large declines in the average workweek component in June and July, the indicators in the leading index have generally been fairly strong in recent months, suggesting the possibility of increased growth in domestic aluminum mill products industry activity in the near term.

The **primary aluminum leading index** edged down 0.1% in August, dipping to 79.9 from a revised 80.0 in July. The index's 6-month smoothed growth rate slowed to 3.5% from a revised 4.1% in July. Five of the index's six components were available for the August index calculation. The largest negative factor was the index measuring the trade-weighted average exchange value of other major currencies against the U.S. dollar, while the S&P stock price index for aluminum companies made the largest positive contribution. The growth rate of the primary aluminum leading index has slowed considerably in recent months, however, it remains in the range that points to an increasing near-term trend in U.S. primary aluminum industry activity.

The **copper leading index** increased 0.3% in August to 119.6 from a revised 119.3 in July, which marked the index's fifth consecutive monthly increase. Its 6-month smoothed growth rate advanced to 4.2%, a 14-month high. Three of the leading index's six components increased in August, with the yield spread between the U.S. 10-year Treasury Note and the federal funds rate and the index of new housing permits providing the largest positive contributions. In contrast, average weekly

overtime hours in copper rolling, drawing, extruding, and alloying establishments was the largest negative contributor, as it gave up its gains in July. The growth rate of the copper leading index points to increasing domestic copper industry activity in the coming months.

U.S. Dollar Index Holds Down Metals Price Leading Index

The metals price leading index moved down to 111.5 in August, the latest month for which it is available, from 112.0 in July, a decline of 0.4%. The index's 6-month smoothed growth rate eased to 1.2% from a revised 1.8% in July.

Three of the leading index's four components were available in time to compute the August index value. The growth rate of the index measuring the trade-weighted average exchange value of other major currencies against the U.S. dollar posted the largest negative contribution. In fact, without the contribution from this component, the metals price leading index would have increased in July and August. The growth rate of the inflation-adjusted

value of new orders for U.S. nonferrous metal products also moved lower in August, while the yield spread between the U.S. 10-year Treasury Note and the federal funds rate widened.

The fourth index component, the growth rate of the Economic Cycle Research Institute's (ECRI) 18-Country Long Leading Index, was available only through July, when it slowed a bit from June's pace.

The growth rate of the inflation-adjusted value of inventories of U.S. nonferrous metal products, which generally moves inversely with metal prices, dipped to -2.1% in August from a revised -0.2% in July.

Although the growth rate of the metals price leading index has slowed in July and August, it still suggests an increasing near-term trend in overall metal prices. The business cycle and inventories are only two factors in metals price determination. Other factors that affect prices include changes in metals production, speculation, strategic stockpiling, foreign exchange rates, geopolitical instability, and production costs.

Table 1.
Leading Index of Metal Prices and Growth Rates of the Nonferrous Metals Price Index, Inventories of Nonferrous Metal Products, and Selected Metal Prices

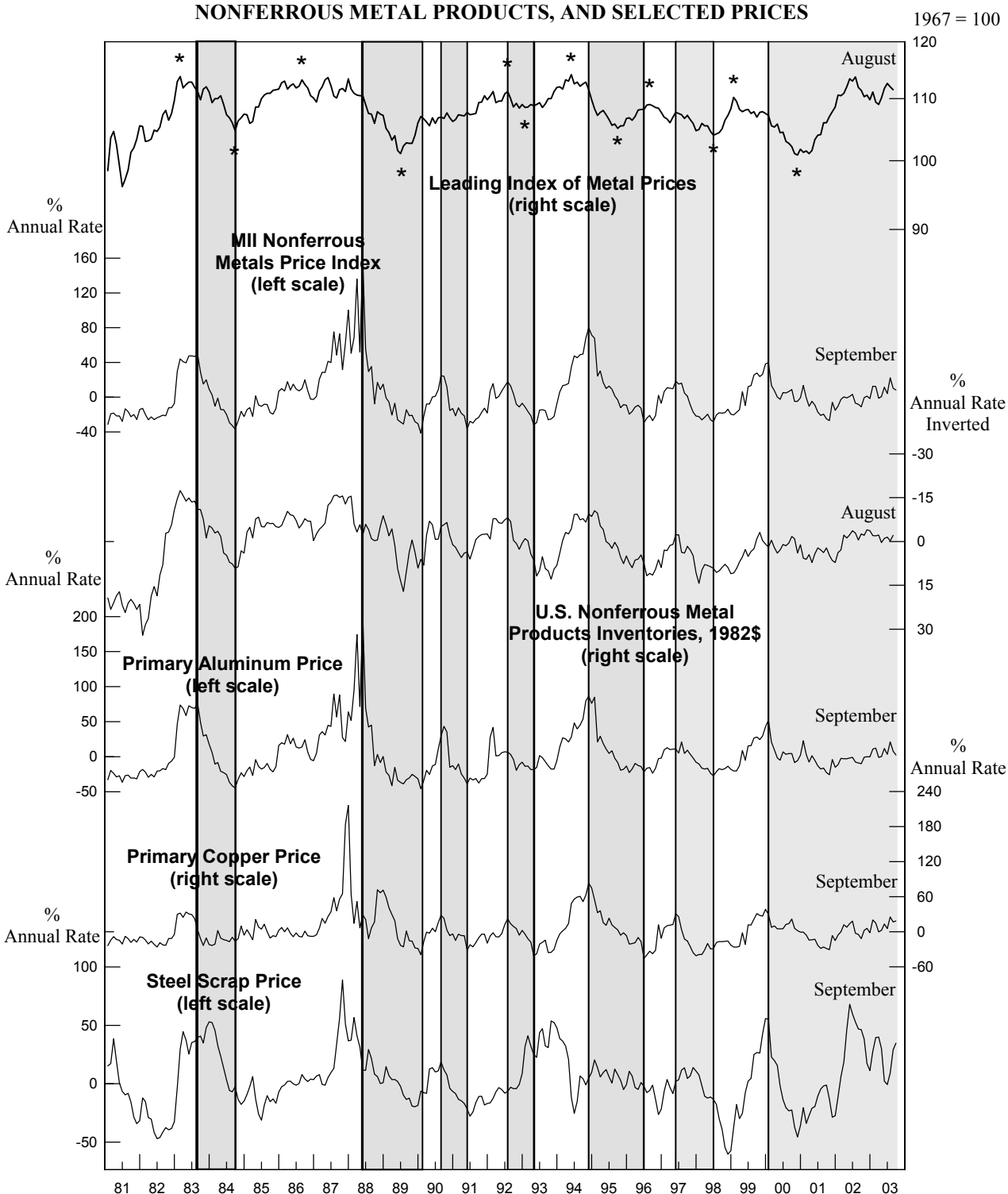
	Leading Index of Metal Prices (1967=100)	Six-Month Smoothed Growth Rates				
		MII Nonferrous Metals Price Index	U.S. Nonferrous Metal Products Inventories (1982\$)	Primary Aluminum	Primary Copper	Steel Scrap
2002						
August	111.9	-8.0	-0.5	-8.9	-4.8	46.8
September	111.4	-11.0	-2.6	-10.1	-11.7	46.2
October	110.3	-0.5	-2.1	-0.8	2.3	38.2
November	110.6	1.3	-4.0	0.0	5.7	17.4
December	109.8	-1.6	-3.7	-0.4	-1.8	11.2
2003						
January	111.1r	12.7	-2.0	10.8	20.2	27.8
February	109.4	12.4	-1.9	12.4	14.9	39.5
March	109.0	-1.1	-2.2	-1.0	-0.3	40.0
April	110.1	0.7	0.4r	0.1	2.3	30.1
May	111.7r	11.5	-1.1r	11.6	13.4	2.3
June	112.6r	4.2	-1.5r	3.3	5.6	-0.8
July	112.0	22.4	-0.2r	21.2	25.2	9.1
August	111.5	10.4	-2.1	7.9	16.8	29.1
September	NA	8.2	NA	2.5	18.4	34.7

NA: Not available r: Revised

Note: The components of the Leading Index of Metal Prices are the spread between the U.S. 10-year Treasury Note and the federal funds rate, and the 6-month smoothed growth rates of the deflated value of new orders for nonferrous metal products, the Economic Cycle Research Institute's 18-Country Long Leading Index, and the reciprocal of the trade-weighted average exchange value of the U.S. dollar against other major currencies. The Metal Industry Indicators (MII) Nonferrous Metals Price Index measures changes in end-of-the-month prices for primary aluminum, copper, lead, and zinc traded on the London Metal Exchange (LME). The steel scrap price used is the price of No. 1 heavy melting. Inventories consist of the deflated value of finished goods, work in progress, and raw materials for U.S.-produced nonferrous metal products (NAICS 3313, 3314, & 335929). Six-month smoothed growth rates are based on the ratio of the current month's index or price to its average over the preceding 12 months, expressed at a compound annual rate.

Sources: U.S. Geological Survey (USGS); American Metal Market (AMM); the London Metal Exchange (LME); U.S. Census Bureau; the Economic Cycle Research Institute, Inc. (ECRI); and Federal Reserve Board.

**CHART 1.
LEADING INDEX OF METAL PRICES AND GROWTH RATES
OF NONFERROUS METALS PRICE INDEX, INVENTORIES OF
NONFERROUS METAL PRODUCTS, AND SELECTED PRICES**



Shaded areas are downturns in the nonferrous metals price index growth rate. Asterisks (*) are peaks and troughs in the economic activity reflected by the leading index of metal prices. Scale for nonferrous metal products inventories is inverted.

Table 2.
The Primary Metals Industry Indexes and Growth Rates

	Leading Index		Coincident Index	
	(1977 = 100)	Growth Rate	(1977 = 100)	Growth Rate
2002				
October	127.9	0.2	99.4	0.6
November	128.0	-0.2	98.4	-1.0
December	129.2	1.2	97.9	-1.8
2003				
January	128.9	0.3	98.6	-0.5
February	128.3	-0.7	97.6	-2.4
March	126.1	-3.7	97.2	-3.2
April	126.0	-3.4r	95.9	-5.2
May	129.0r	1.2r	95.6r	-5.3r
June	129.9	2.7	94.9r	-5.9r
July	130.9r	4.2r	95.2r	-4.7r
August	132.7r	6.6r	94.3	-5.8
September	133.5	7.1	NA	NA

NA: Not available **r:** Revised

Note: Growth rates are expressed as compound annual rates based on the ratio of the current month's index to the average index during the preceding 12 months.

Table 3.
The Contribution of Each Primary Metals Index Component to the Percent Change in the Index from the Previous Month

Leading Index	August	September
1. Average weekly hours, primary metals (NAICS 331)	0.1r	0.7
2. Weighted S&P stock price index, machinery, construction and farm and industrial (December 30, 1994 = 100)	0.7r	0.0
3. Ratio of price to unit labor cost (NAICS 331)	-0.3	NA
4. JOC-ECRI metals price index growth rate	0.2r	0.1
5. New orders, primary metal products, (NAICS 331 & 335929) 1982\$	0.0	NA
6. Index of new private housing units authorized by permit	0.3	NA
7. Growth rate of U.S. M2 money supply, 1996\$	-0.1	NA
8. PMI	0.4r	-0.2
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	1.3r	0.6
Coincident Index	July	August
1. Industrial production index, primary metals (NAICS 331)	0.2	-0.6
2. Total employee hours, primary metals (NAICS 331)	-0.6r	-0.1
3. Value of shipments, primary metals products, (NAICS 331 & 335929) 1982\$	0.6r	-0.4
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	0.3r	-1.0

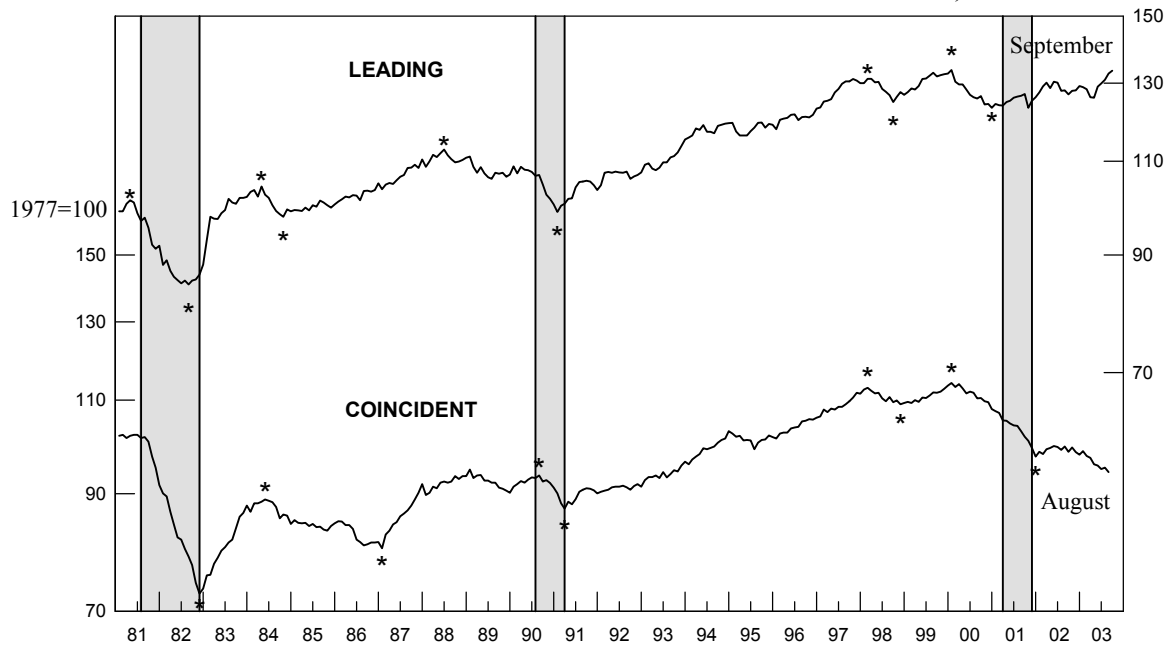
Sources: Leading: 1, Bureau of Labor Statistics; 2, Standard & Poor's and U.S. Geological Survey; 3, U.S. Geological Survey; 4, Journal of Commerce and Economic Cycle Research Institute, Inc.; 5, U.S. Census Bureau and U.S. Geological Survey; 6, U.S. Census Bureau and U.S. Geological Survey; 7, Federal Reserve Board, Conference Board, and U.S. Geological Survey; and 8, Institute for Supply Management. Coincident: 1, Federal Reserve Board; 2, Bureau of Labor Statistics and U.S. Geological Survey; 3, U.S. Census Bureau and U.S. Geological Survey. All series are seasonally adjusted, except 2, 3, and 4 of the leading index.

NA: Not available **r:** Revised

Note: A component's contribution, shown in Tables 3, 5, 7, and 9, measures its effect, in percentage points, on the percent change in the index. Each month, the sum of the contributions plus the trend adjustment equals (except for rounding differences) the index's percent change from the previous month.

CHART 2.

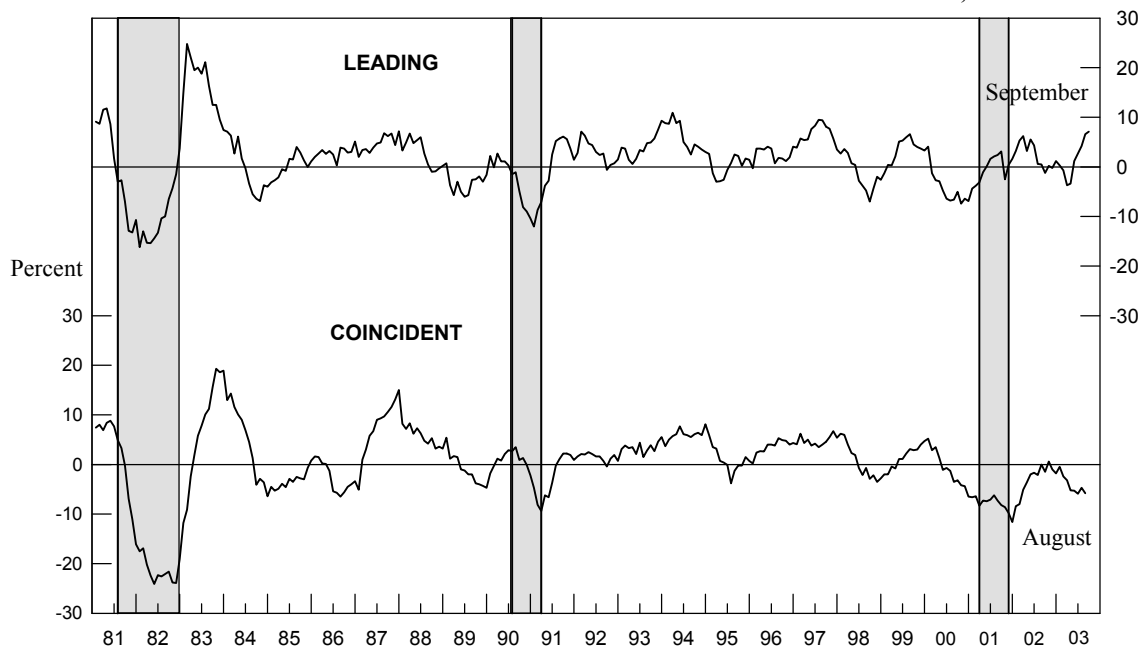
PRIMARY METALS: LEADING AND COINCIDENT INDEXES, 1981-2003 1977=100



Shaded areas are business cycle recessions. Asterisks (*) signify peaks (the end of an expansion) and troughs (the end of a downturn) in the economic activity reflected by the indexes.

CHART 3.

PRIMARY METALS: LEADING AND COINCIDENT GROWTH RATES, 1981-2003 Percent



Shaded areas are business cycle recessions.

The growth rates are expressed as compound annual rates based on the ratio of the current month's index to its average level during the preceding 12 months.

Table 4.
The Steel Industry Indexes and Growth Rates

	Leading Index		Coincident Index	
	(1977 = 100)	Growth Rate	(1977 = 100)	Growth Rate
2002				
September	110.0	-1.0	94.8	1.5
October	109.7	-1.4	95.4	2.8
November	110.2	-0.7	94.8	1.4
December	112.5	2.9	94.7	1.0
2003				
January	109.9	-1.8	94.7	0.5
February	108.5	-4.0	92.9	-3.2
March	107.4	-5.5	92.9	-3.0
April	108.1	-3.9	93.0	-2.7r
May	110.9	1.1	92.0	-4.5r
June	110.8	1.0r	90.8r	-6.5r
July	111.2r	1.9r	90.4r	-6.6r
August	112.7	4.5	89.2	-8.2

r: Revised

Note: Growth rates are expressed as compound annual rates based on the ratio of the current month's index to the average index during the preceding 12 months.

Table 5.
The Contribution of Each Steel Index Component to the Percent Change in the Index from the Previous Month

Leading Index	July	August
1. Average weekly hours, iron and steel mills (NAICS 3311 & 3312)	-0.7r	-0.1
2. New orders, iron and steel mills (NAICS 3311 & 3312), 1982\$	0.3r	0.1
3. Shipments of household appliances, 1982\$	0.3r	0.1
4. S&P stock price index, steel companies	-0.1	0.2
5. Retail sales of U.S. passenger cars and light trucks (units)	0.3	0.4
6. Growth rate of the price of steel scrap (#1 heavy melting, \$/ton)	0.0	0.0
7. Index of new private housing units authorized by permit	-0.1	0.3
8. Growth rate of U.S. M2 money supply, 1996\$	0.1	-0.1
9. PMI	0.2	0.3
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	0.3r	1.2
Coincident Index		
1. Industrial production index, iron and steel products (NAICS 3311 & 3312)	-0.1r	-0.8
2. Value of shipments, iron and steel mills (NAICS 3311 & 3312), 1982\$	0.7r	-0.6
3. Total employee hours, iron and steel mills (NAICS 3311 & 3312)	-1.1r	0.0
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	-0.4r	-1.3

Sources: Leading: 1, Bureau of Labor Statistics; 2, U.S. Census Bureau and U.S. Geological Survey; 3, U.S. Census Bureau and U.S. Geological Survey; 4, Standard & Poor's; 5, U.S. Bureau of Economic Analysis and American Automobile Manufacturers Association; 6, Journal of Commerce and U.S. Geological Survey; 7, U.S. Census Bureau and U.S. Geological Survey; 8, Federal Reserve Board, Conference Board, and U.S. Geological Survey; and 9, Institute for Supply Management. Coincident: 1, Federal Reserve Board; 2, U.S. Census Bureau and U.S. Geological Survey; 3, Bureau of Labor Statistics and U.S. Geological Survey. All series are seasonally adjusted, except 4 and 6 of the leading index.

r: Revised

CHART 4.
STEEL: LEADING AND COINCIDENT INDEXES, 1981-2003

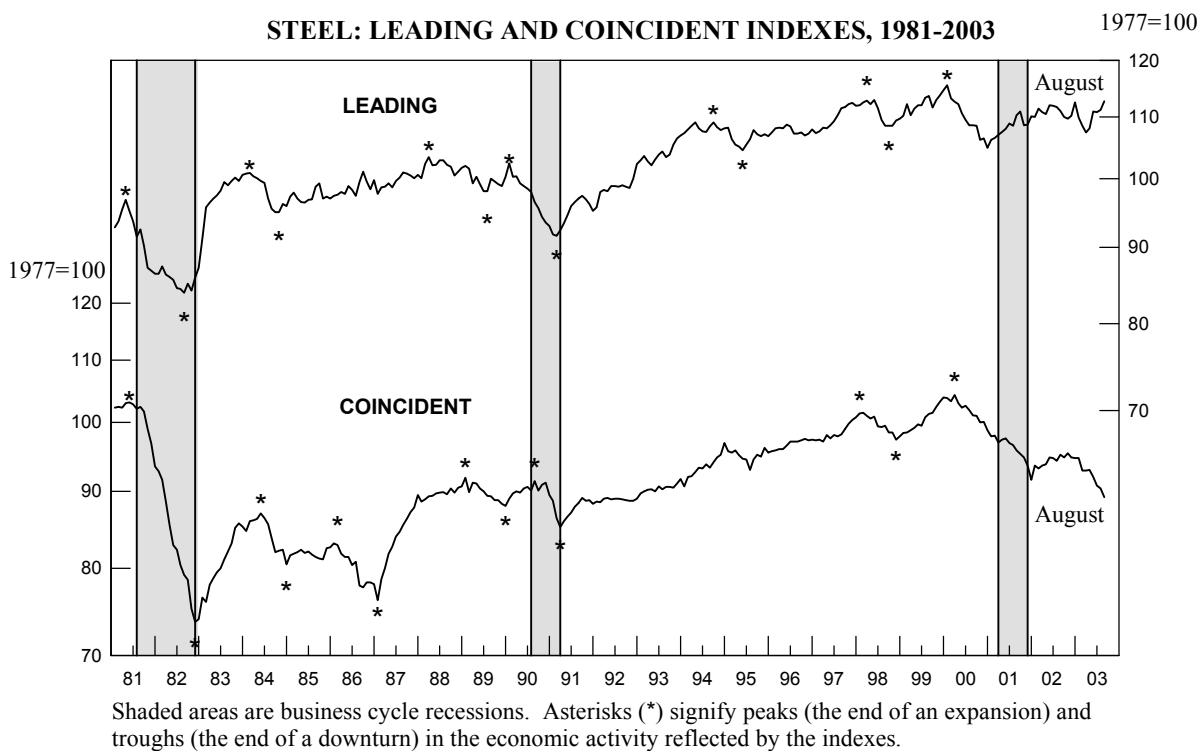


CHART 5.
STEEL: LEADING AND COINCIDENT GROWTH RATES, 1981-2003

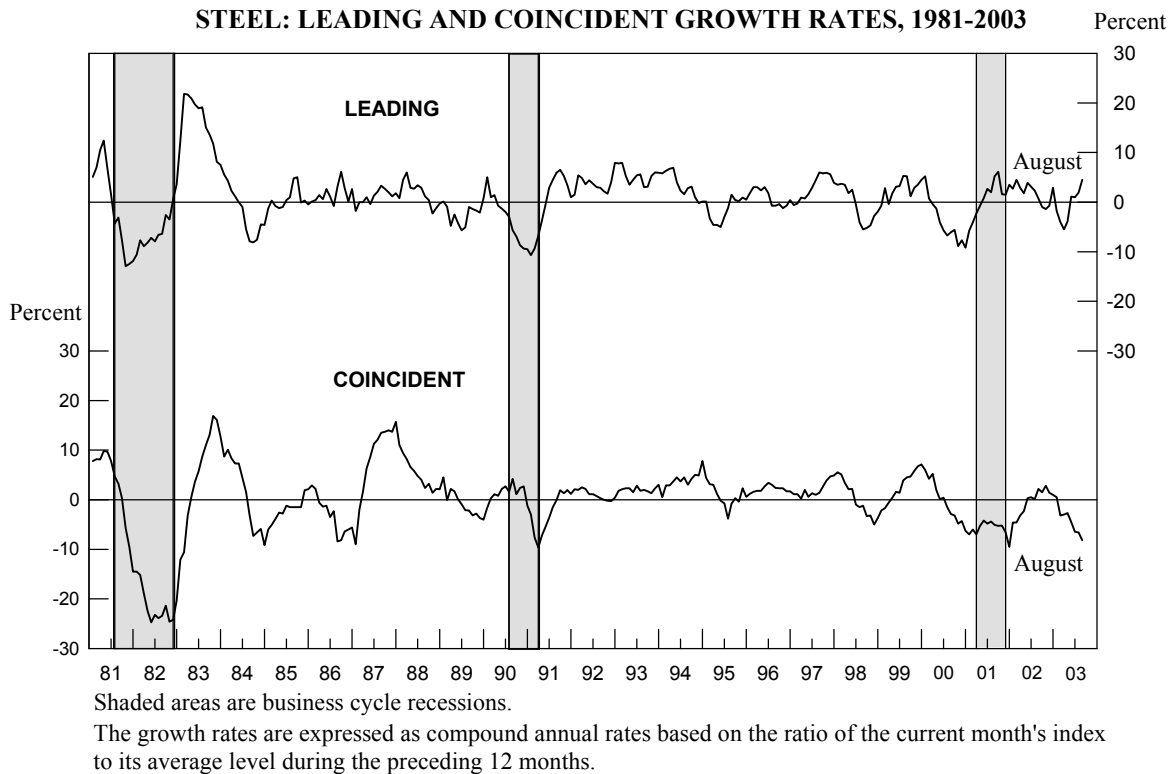


Table 6.
The Aluminum Mill Products Industry Indexes and Growth Rates

	Leading Index		Coincident Index	
	(1977 = 100)	Growth Rate	(1977 = 100)	Growth Rate
2002				
September	164.3	-1.5	137.6	2.3
October	164.2	-1.2	136.0	0.1
November	165.1	0.2	137.0	1.8
December	167.8	3.3	137.3	2.2
2003				
January	166.0	1.0	134.8	-1.5
February	165.8	0.6	136.5	0.9
March	161.7	-3.9	136.4	0.4
April	162.9r	-2.3r	132.6	-4.8
May	167.9r	3.5r	136.0r	0.0r
June	164.4r	-0.7r	131.8r	-5.7r
July	164.5r	-0.5r	132.6r	-4.1r
August	166.3	1.6	132.3	-4.2

r: Revised

Note: Growth rates are expressed as compound annual rates based on the ratio of the current month's index to the average index during the preceding 12 months.

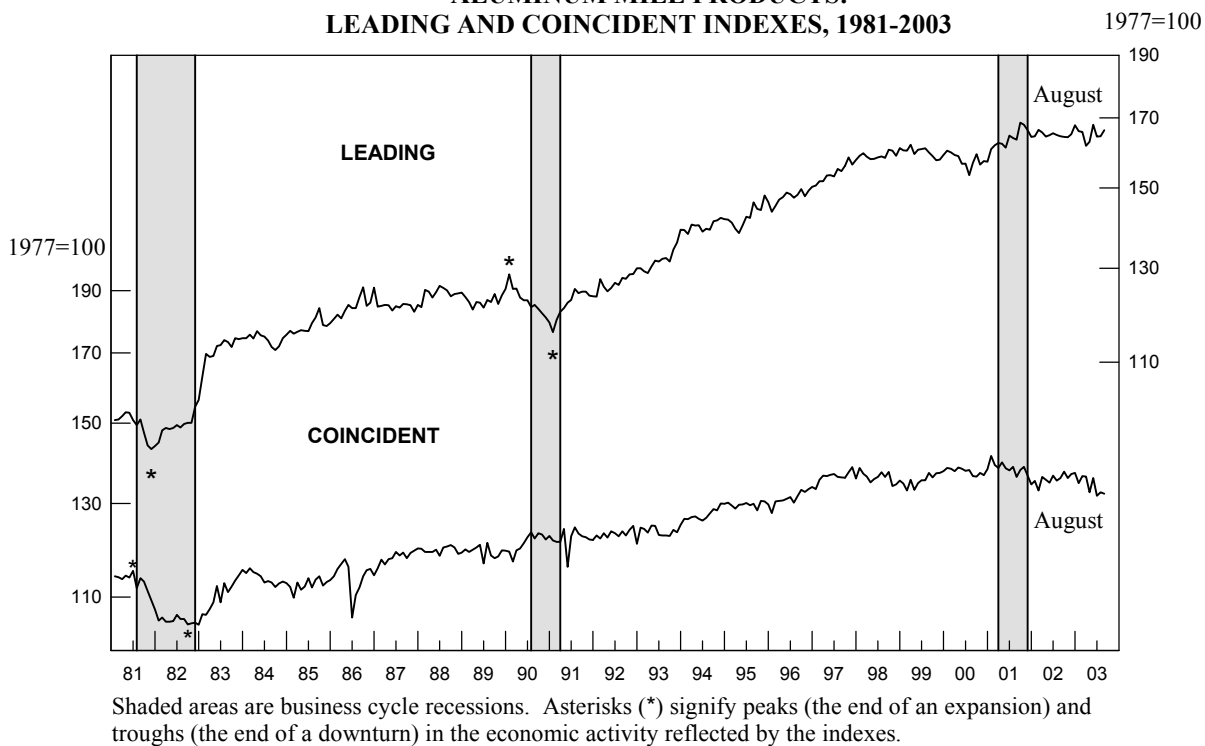
Table 7.
The Contribution of Each Aluminum Mill Products Index Component to the Percent Change in the Index from the Previous Month

Leading Index	July	August
1. Average weekly hours, aluminum sheet, plate, and foil (NAICS 331315)	-1.0	NA
2. Index of new private housing units authorized by permit	-0.1	0.4
3. Retail sales of U.S. passenger cars and light trucks (units)	0.4	0.6
4. Construction contracts, commercial and industrial (square feet)	0.1	-0.8
5. Net new orders for aluminum mill products (pounds)	0.1	0.4
6. Growth rate of U.S. M2 money supply, 1996\$	0.1	-0.1
7. PMI	0.3	0.5
Trend adjustment	0.2	0.2
Percent change (except for rounding differences)	0.1r	1.2
Coincident Index		
1. Industrial production index, misc. aluminum materials (NAICS 331315,9)	1.4r	-0.4
2. Total employee hours, aluminum sheet, plate, and foil (NAICS 331315)	-0.9	NA
Trend adjustment	0.2	0.2
Percent change (except for rounding differences)	0.7r	-0.2

Sources: Leading: 1, Bureau of Labor Statistics; 2, U.S. Census Bureau and U.S. Geological Survey; 3, U.S. Bureau of Economic Analysis and American Automobile Manufacturers Association; 4, F.W. Dodge, Division of McGraw-Hill Information Systems Company; 5, The Aluminum Association, Inc. and U.S. Geological Survey; 6, Federal Reserve Board, Conference Board, and U.S. Geological Survey; 7, Institute for Supply Management. Coincident: 1, Federal Reserve Board; 2, Bureau of Labor Statistics and U.S. Geological Survey. All series are seasonally adjusted.

NA: Not available r: revised

**CHART 6.
ALUMINUM MILL PRODUCTS:
LEADING AND COINCIDENT INDEXES, 1981-2003**



**CHART 7.
ALUMINUM MILL PRODUCTS:
LEADING AND COINCIDENT GROWTH RATES, 1981-2003**

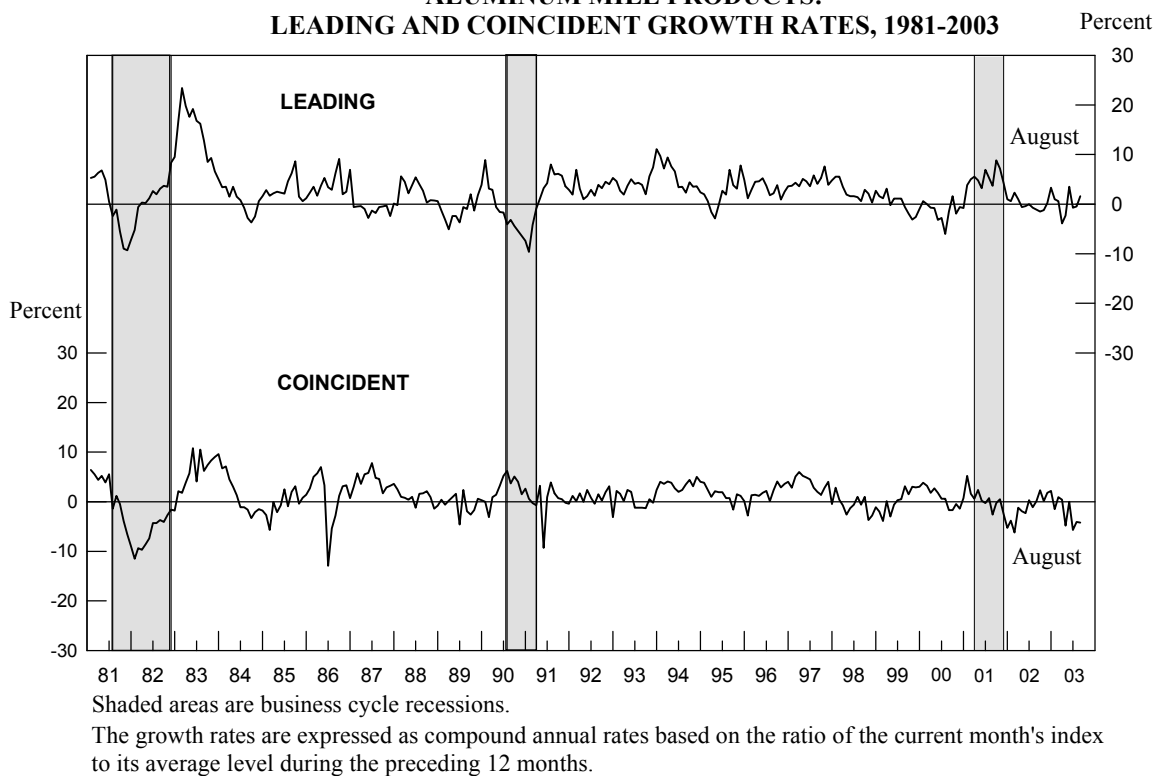


Table 8.
The Copper Industry Indexes and Growth Rates

	Leading Index		Coincident Index	
	(1977 = 100)	Growth Rate	(1977 = 100)	Growth Rate
2002				
September	116.8	-2.3	109.3	-3.3
October	116.6	-3.1	109.7	-2.2
November	116.7	-3.2	108.5	-3.6
December	117.4	-2.1	109.8	-1.0
2003				
January	117.5	-1.9	110.1	-0.1
February	116.2	-3.8	109.5	-1.0
March	114.8	-5.5	107.7	-3.9
April	115.6	-3.6	105.6	-7.0
May	117.1	-0.6	106.3	-5.3
June	117.6	0.8	107.5r	-2.5r
July	119.3r	3.9r	108.7r	-0.1r
August	119.6	4.2	106.6	-3.4

r: Revised

Note: Growth rates are expressed as compound annual rates based on the ratio of the current month's index to the average index during the preceding 12 months.

Table 9.
The Contribution of Each Copper Index Component to the Percent Change in the Index from the Previous Month

Leading Index	July	August
1. Average weekly overtime hours, copper rolling, drawing, extruding, and alloying (NAICS 33142)	0.6	-0.5
2. New orders, nonferrous metal products, (NAICS 3313, 3314, & 335929) 1982\$	-0.1	-0.1
3. S&P stock price index, building products companies	-0.2	0.2
4. LME spot price of primary copper	0.5	-0.1
5. Index of new private housing units authorized by permit	-0.1	0.4
6. Spread between the U.S. 10-year Treasury Note and the federal funds rate	0.7	0.4
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	1.4	0.3
Coincident Index		
1. Industrial production index, primary smelting and refining of copper (NAICS 331411)	0.1r	-0.1
2. Total employee hours, copper rolling, drawing, extruding, and alloying (NAICS 33142)	0.7r	-2.0
3. Copper refiners' shipments (short tons)	0.3	NA
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	1.2r	-2.0

Sources: Leading: 1, Bureau of Labor Statistics; 2, U.S. Census Bureau and U.S. Geological Survey; 3, Standard & Poor's; 4, London Metal Exchange; 5, U.S. Census Bureau and U.S. Geological Survey; 6, Federal Reserve Board and U.S. Geological Survey. Coincident: 1, Federal Reserve Board; 2, Bureau of Labor Statistics; 3, American Bureau of Metal Statistics, Inc. and U.S. Geological Survey. All series are seasonally adjusted, except 3, 4, and 6 of the leading index.

r: Revised

CHART 8.
COPPER: LEADING AND COINCIDENT INDEXES, 1981-2003

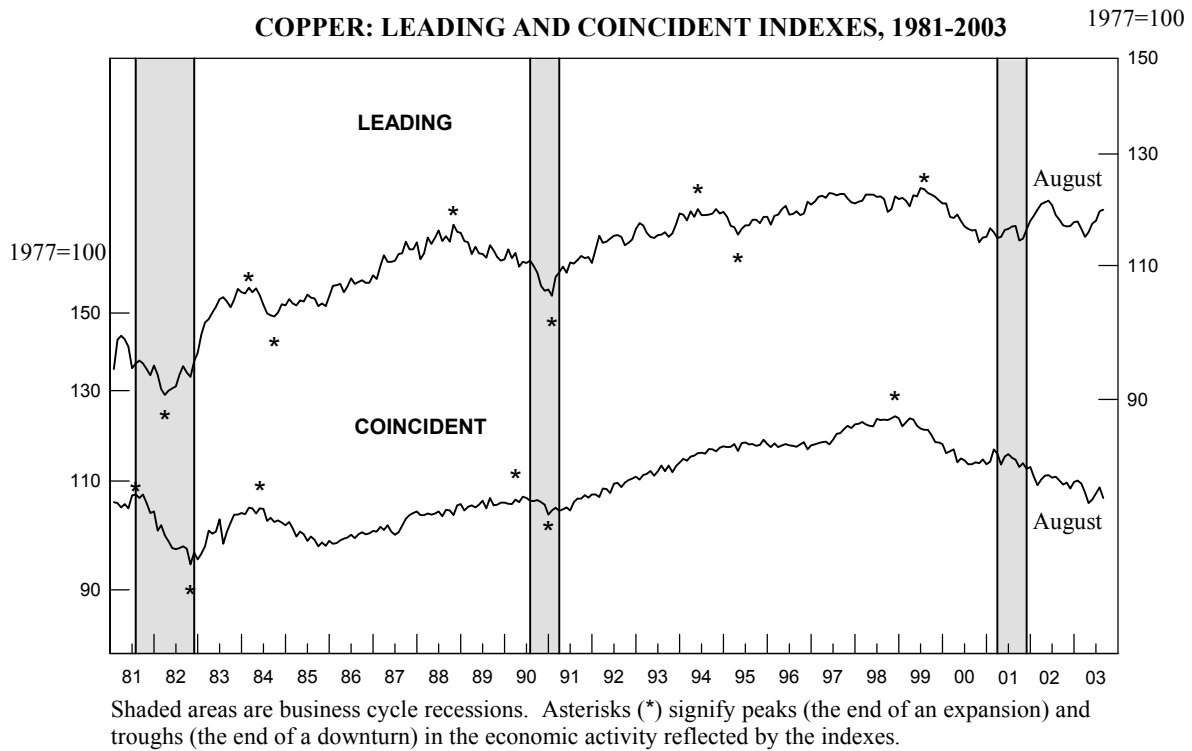


CHART 9.
COPPER: LEADING AND COINCIDENT GROWTH RATES, 1981-2003

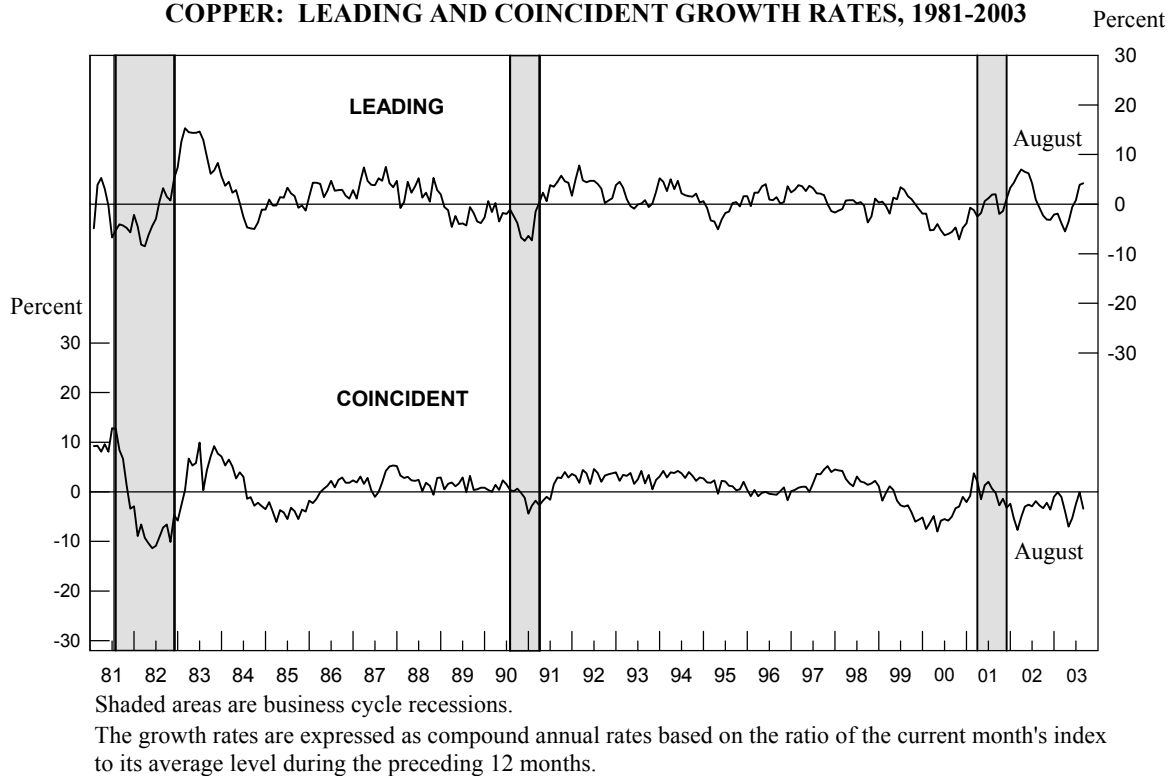


Table 10.
The Primary Aluminum Industry Indexes and Growth Rates

	Leading Index		Coincident Index	
	(1977 = 100)	Growth Rate	(1977 = 100)	Growth Rate
2002				
September	77.0	-2.6	69.0	5.2
October	75.3	-5.6	69.5	7.4
November	76.3	-2.5	69.8	8.2
December	77.5	0.9	70.5	9.4
2003				
January	78.1	2.4	70.0	6.8
February	78.8	4.1	70.7	7.3
March	79.3	5.0	70.0	4.2
April	78.1	1.7	69.1	1.0
May	80.9	8.2r	68.9r	-0.2
June	80.7r	6.6r	67.8	-3.7
July	80.0r	4.1r	67.0r	-6.4r
August	79.9	3.5	67.1	-5.8

r: Revised

Note: Growth rates are expressed as compound annual rates based on the ratio of the current month's index to the average index during the preceding 12 months.

Table 11.
The Contribution of Each Primary Aluminum Index Component to the Percent Change in the Index from the Previous Month

Leading Index	July	August
1. Average weekly hours, primary aluminum products (NAICS 331312)	-1.0	NA
2. S&P stock price index, aluminum companies	0.0	0.6
3. LME cash closing price for primary aluminum (\$/ton)	0.1	0.1
4. Industrial production index, misc. aluminum materials (NAICS 331315,9)	0.7r	-0.1
5. New orders, nonferrous metal products (NAICS 3313, 3314, & 335929) 1982\$	-0.1	-0.1
6. Reciprocal, index of the trade-weighted average exchange value of the U.S. dollar against other major currencies	-0.4r	-0.5
Trend adjustment	-0.1	-0.1
Percent change (except for rounding differences)	-0.8r	-0.1
Coincident Index		
1. Production of primary aluminum (metric tons)	-0.3r	0.1
2. Total employee hours, primary aluminum products, (NAICS 331312)	-0.9	NA
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	-1.2r	0.1

Sources: Leading: 1, Bureau of Labor Statistics; 2, Standard & Poor's; 3, London Metal Exchange; 4, Federal Reserve Board; 5, U.S. Census Bureau and U.S. Geological Survey; 6, Federal Reserve Board and U.S. Geological Survey. Coincident: 1, The Aluminum Association, Inc. and U.S. Geological Survey and 2, Bureau of Labor Statistics and U.S. Geological Survey. All series are seasonally adjusted, except 2, 3, and 6 of the leading index.

NA: Not available r: Revised

CHART 10.

PRIMARY ALUMINUM LEADING AND COINCIDENT INDEXES, 1981-2003 1977=100

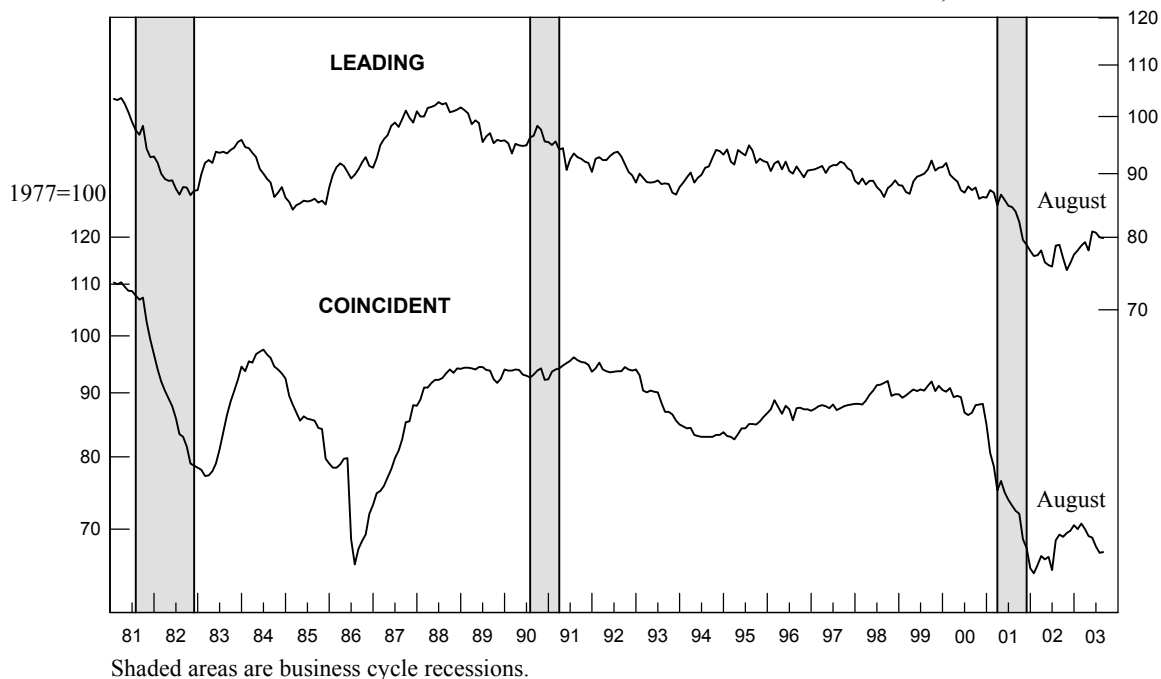
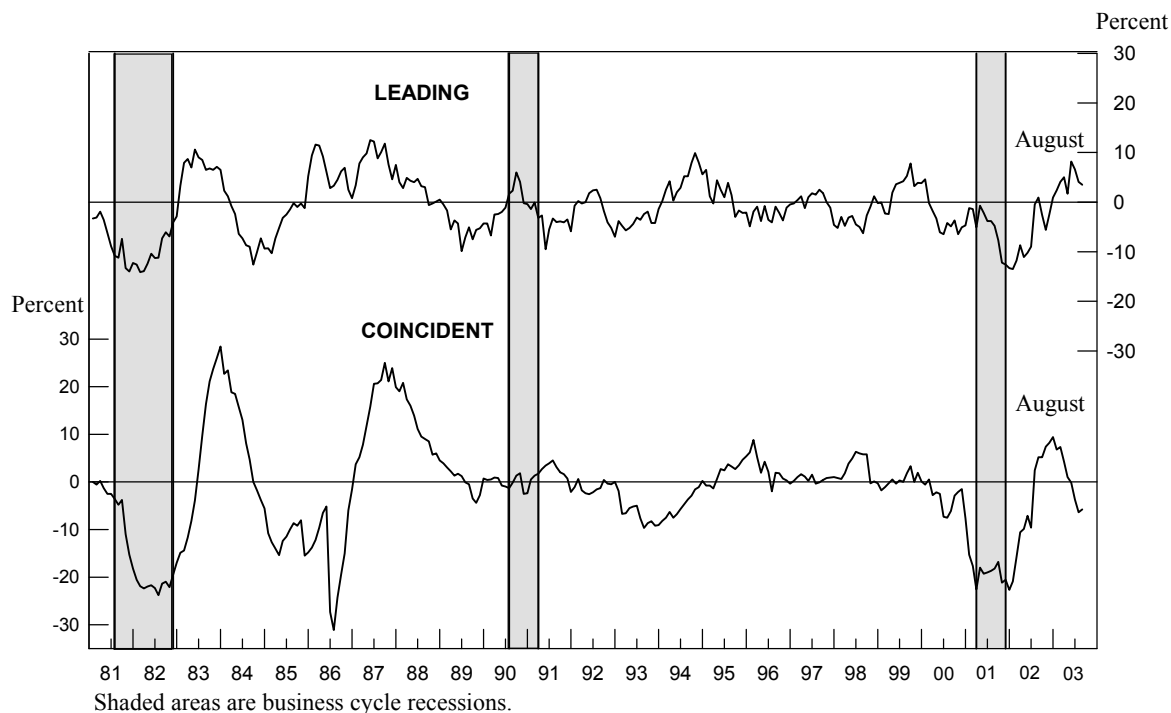


CHART 11.

PRIMARY ALUMINUM LEADING AND COINCIDENT GROWTH RATES, 1981-2003



The growth rates are expressed as compound annual rates based on the ratio of the current month's index to its average level during the preceding 12 months.

Explanation

Each month, the U.S. Geological Survey tracks the effects of the business cycle on five U.S. metal industries by calculating and publishing composite indexes of leading and coincident indicators. Wesley Mitchell and Arthur Burns originated the cyclical-indicators approach for the economy as a whole at the National Bureau of Economic Research in the mid-1930s. Over subsequent decades this approach was developed and refined, mostly at the National Bureau, under the leadership of Geoffrey H. Moore.¹

A business cycle can briefly be described as growth in the level of economic activity followed by a decline succeeded by further growth. These alternating periods of growth and decline do not occur at regular intervals. Composite indexes, however, can help determine when highs and lows in the cycle might occur. A composite index combines cyclical indicators of diverse economic activity into one index, giving decision makers and economists a single measure of how changes in the business cycle are affecting economic activity.

The indicators in the metal industry leading indexes historically give signals several months in advance of major changes in a coincident index, a measure of current metal industry activity. Indicators that make up the leading indexes are, for the most part, measures of anticipations or new commitments to various economic activities that can affect the metal industries in the months ahead.

Composite coincident indexes for the metal industries consist of indicators for production, shipments, and total employee hours worked. As such, the coincident indexes can be regarded as measures of the economic health of the metal industries.

The metal industry coincident indexes reflect industry activity classified by the U.S. Standard Industrial Classification (SIC) and the North American Industry Classification System (NAICS). Of the five metal industries, primary metals (NAICS 331) is the broadest, containing 25 different metal processing industries. Steel, aluminum, and copper are specific industries within the primary metals group.

The SIC was the main vehicle used by the U.S. Government and others in reporting industry economic statistics throughout most of the last century. Starting with the 1997 U.S. Economic Census, the U.S. Government began using the NAICS, which classifies economic data for industries in Canada, Mexico, and the United States. In general, metal industry indexes starting in 1997 begin to reflect the NAICS classification, while indexes for earlier years follow the SIC. Hence, composite indexes from 1997 forward are not entirely consistent with those of earlier years.

The largest change to primary metals because of the NAICS deals with other communication and energy wire manufacturing (NAICS 335929). Under NAICS, this manufacturing has been removed from primary metals and added to electrical equipment, appliance, and component manufacturing. Because monthly shipments and new orders for this wire are not available, the USGS is estimating their values from 1997 onward and adding them to the appropriate metal industry indicators and indexes to maintain consistency.

¹**Business Cycle Indicators, A monthly report from The Conference Board** (March 1996).

There are other small changes to the primary metals industry because of the switch to the NAICS. Coke oven activity not done by steel mills, for example, is removed and alumina refining, a part of industrial inorganic chemical manufacturing under the SIC, is added. Since the historic trends of the composite indexes are not affected by these small changes, the USGS is not making specific adjustments to the indexes for them for the periods before and after 1997.

The metal industry leading indexes turn before their respective coincident indexes an average of 8 months for primary metals and 7 months for steel and copper. The average lead time for the primary aluminum leading index is 6 to 8 months, and the average lead time for the aluminum mill products leading index is 6 months.

The leading index of metal prices, also published in the *Metal Industry Indicators*, is designed to signal changes in a composite index of prices for primary aluminum, copper, lead, and zinc traded on the London Metal Exchange. On average, this leading index indicates significant changes in price growth about 8 months in advance.

The growth rate used in the *Metal Industry Indicators* is a 6-month smoothed growth rate at a compound annual rate, calculated from a moving average. Moving averages smooth fluctuations in data over time so that trends can be observed. The 6-month smoothed growth rate is based upon the ratio of the latest monthly value to the preceding 12-month moving average.

$$\left[\left(\frac{\text{current value}}{\text{preceding 12-month moving average}} \right)^{\frac{12}{6.5}} - 1.0 \right] * 100$$

Because the interval between midpoints of the current month and the preceding 12 months is 6.5 months, the ratio is raised to the 12/6.5 power to derive a compound annual rate.

The growth rates measure the near-term industry trends. They, along with other information about the metal industries and the world economy, are the main tools used to determine the outlook of the industries. A 6-month smoothed growth rate above +1.0% usually means increasing growth; a rate below -1.0% usually means declining growth.

The next summary is scheduled for release on the World Wide Web at 10:00 a.m. EST, Friday, November 21. The address for *Metal Industry Indicators* on the World Wide Web is: <http://minerals.usgs.gov/minerals/pubs/mii/>

The *Metal Industry Indicators* is produced at the U.S. Geological Survey by the Minerals Information Team. The report is prepared by Kenneth Beckman (703-648-4916; e-mail: kbeckman@usgs.gov), and Gail James (703-648-4915; e-mail: gjames@usgs.gov). The former Center for International Business Cycle Research, under the direction of Dr. Geoffrey H. Moore, and the former U.S. Bureau of Mines developed the metal industry leading and coincident indexes in the early 1990s. Customers can send mail concerning the *Metal Industry Indicators* to the following address:

U.S. Geological Survey
Minerals Information Team
988 National Center
Reston, Virginia 20192